



Milwaukee County
Retirement Sustainability Taskforce RST
Meeting Minutes
July 24, 2018, 2:30 PM
Milwaukee Area Technical College Room M616
700 W State Street Milwaukee WI 53233

Members Present:

Chris Abele, Bob Conlin, Margaret Daun, Norb Gedemer, Rep. Evan Goyke, Ralph Hollmon, Waylon Hurlburt, Scott Manske, Jodi Mapp, Ron Nelson, Julie Siegel, Greg Smith (by phone), Sup. Sheldon Wasserman, Michael Harper, and Teig Whaley-Smith

Meeting called to order at 2:37 pm

Item 1 Presentation by David Draine: Policy Option Evaluation

Full presentation available at <http://county.milwaukee.gov/RST>

Questions/Discussion:

Proceedings on possible motions began with consideration of options to address the unfunded liability.

Q: Does reducing the COLA require legislative change?

A: To the best of our knowledge, it is part of the pension ordinance, and would require action by the county board. There could be legal challenges, however.

Q: Are the 9% cap on the employee contribution rate and the 7% investment return assumption in the "Example Reform Package" just placeholders? Or is there some magic there?

A: They are placeholders. South Carolina is one example. They capped it at 9% to avoid more discomfort.

Q: Would capping the employee contribution require change in state law?

A: Unsure. The law is vague and may offer some flexibility or may not. This analysis hasn't been done yet.

Q: A question on the discount rate: It affects how the pattern of costs emerges, but is driven by investment earnings?

A: Yes.

Q: So by itself it doesn't do much.

A: Yes. If you change the discount rate and go to safer investments, there is more difference. There is more risk with a higher discount rate.

Q: Many plan designs and features are highly integrated. The challenge is understanding how other things move when you pull one lever. We need everyone to have a good understanding of these relationships, even if we need to have another meeting to unpack them.

A: Yes, that is reasonable.

Q: Reducing the COLA reduces payments in, and it can affect the speed at which we amortize. We want to model these, not pick a random number.

Q: What do other states do? How do you explain this (to the public)? If you mirror the state system, you can say that it has worked well and is stable. Reduction in unfunded liability is a no brainer if that's the goal.



Milwaukee County
Retirement Sustainability Taskforce RST
Meeting Minutes
July 24, 2018, 2:30 PM
Milwaukee Area Technical College Room M616
700 W State Street Milwaukee WI 53233

Q: Each lever pulls other levers. For context, if we drop the COLA to zero, we are solving the problem on the backs of retirees. There is no spin for that. Another lever is the assumed rate of return. We must reduce the risk, or we will end up back in this room again. It is unfair to ask any stakeholders to make any reduction in benefits or increase in payments unless we are looking at things in totality. It's not ethical. Mirroring WRS is a solid point. There is a powerful argument for it. If you attach getting 100% funded to the COLA, however, we know it's not going to happen for a long time. I'm not in favor of elimination of the COLA or until 100% funding, but we could look into having it time bound (5 years).

Q: What other mechanisms are there to reduce the unfunded liability besides the reduction in COLA? Because that won't go over well.

Q: In return for holding back COLA, the County could accelerate the rate of repayment of the liability? It would be a package deal. But balanced between stakeholders.

Q: Messaging is critical, and so is looking at each group for fairness and equity. There will be PR, but it must be based on analysis. Different groups have different impacts (active employees, retirees, etc.). We can't make it fair for everyone, but we can make it more fair.

Q: Is a 1% reduction in COLA equal to a \$100 million reduction? Or is that too simplistic?

A: Long term, it would be about \$200 million

Q: Can you estimate the number if we mirror the state system?

A: Somewhere less than the \$400 million total. For a while there would be underfunding and no COLA. Once it's fully funded, it would depend on returns. Realistically, there would likely be no COLA for 20 years.

Q: We can't actually mirror WRS because their benefits can be reduced, and we aren't doing that.

A: Yes.

Q: So mirroring WRS is limited to not having COLA increases if the system isn't fully funded.

Q: How do we resolve it if the taskforce recommends a COLA reduction but doesn't give a specific number?

A: It is still a helpful recommendation. It's good to identify issues. Most helpful would be direction around the three major issues.

Q: Important to consider what these COLA numbers mean for retirees' bottom lines.

Response: We need to consider the impacts on everyone. Retirees, active employees, county taxpayers. If we don't do something, the impact will be dramatically reduced services with no fewer taxes.

Q: Bonding for some of the unfunded liability would stabilize the employee contribution?

A: The question of whether to consider pension obligation bonds is outside the scope of this taskforce. But on the table is lowering the discount rate and linking that to the COLA.

Q: The problem I have is that the county has provided health care at retirement, but health care costs have gone up, so we started making changes to active employees' benefits. This was passed on



Milwaukee County
Retirement Sustainability Taskforce RST
Meeting Minutes
July 24, 2018, 2:30 PM
Milwaukee Area Technical College Room M616
700 W State Street Milwaukee WI 53233

to retirees through copays and deductibles to share costs. So the county has an example where it has shared the burden with retirees and actives. On the COLA, 4,000 – 4,500 left prior to all the pension enhancements and we would be impacting them, as well. There does have to be some sharing, but I don't think we can get to a consensus on what the COLA reduction should be. We need to study this and see how to best share the costs and what others have done to reduce the COLA. Not willing to recommend that the COLA is eliminated for 15-20 years.

A: Different constituencies will be affected to differing degrees. People may be more willing to accept changes if they feel the pain is shared. We need to show people where the burden is currently and how that would change. COLA is one tool.

A: In terms of process, we will have a time for public input. We will have a draft report, give the public a chance to weigh in, and then it comes back to the taskforce. Then we work with the comptroller, state legislature, etc. We never had an expectation that this taskforce would say "we need a 0.5% reduction."

Q: How do we deal with the interaction of motions?

A: We will vote on each, and then vote on the total package at the end.

Motion #1 (Hollmon, seconded by Smith)

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors analyze options for reducing the COLA – including potential legal considerations – as a means of reducing the unfunded liability and ensuring that future costs are spread equitably among retirees, past and current employees, and County residents and taxpayers. In doing so, the County should consider options that include those implemented by other public plans, as well as an approach that mirrors that used by the WRS.

Motion adopted unanimously

The Taskforce next considered possible motions on plan design options. The WRS options received consistently high scores on scorecards so discussion was initiated on that option.

Q: Is this a hard or soft freeze?

A: Our modeling has assumed a soft freeze but if the Taskforce recommends this option, the County would do more analysis on this question.

Q: My biggest concern for going to WRS is that employee contribution rates go up to 30% in the model.

A: If you do WRS, part of the transition could include a recommendation to cap employee contribution rates.

Q: What are the effects of joining WRS on other WRS employers?

A: The system is set up to handle that.

Q: Does WRS require us to re-vest?

A: Yes.

Response: The question is how they will receive credit. The law doesn't address this right now, so we have to figure out how to address this.

Response: Some statutory change will probably be required.



Milwaukee County
Retirement Sustainability Taskforce RST
Meeting Minutes
July 24, 2018, 2:30 PM
Milwaukee Area Technical College Room M616
700 W State Street Milwaukee WI 53233

Motion #2 (Nelson, seconded by Hollmon)

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors pursue an approach that would close the ERS to new employees and – subject to legal analysis - have all new employees become members of the Wisconsin Retirement System. The treatment of non-vested active employees and future service of active employees should be further analyzed by both the County and WRS. Such analysis shall include determination that no adverse financial impacts shall accrue to WRS.

Furthermore, the task force recommends that any approach that would involve a “soft freeze” with regard to a shift to WRS include a cap on the active employee contribution rate to ERS.

Motion adopted with one “no” vote (Harper)

The Taskforce next considered additional motions.

Q: Do we want to consider a motion on stress testing or other best practices? What about a motion on amortization?

Q: I understand that Pew has issued recommendations on stress testing, but I think it’s important that the taskforce review those before voting on a motion.

Motion #3

The task force recommends that ERS engage in regular financial monitoring and stress testing per guidelines recommended by Pew, and that it consider other financial and operational best practices.

Motion tabled to next meeting pending further information on Pew stress testing guidelines

It was determined that another meeting would be held on August 28 at the same time and place to consider any additional motions and vote on a final package. The drafted motions will be sent out to members, and they are asked to submit additional motions (if possible) in advance of the next meeting so they can be written up.

Next steps after the August meeting: further analysis, draft report, public hearing, taskforce meeting to approve package and report.

Q: Will the analysis include final numbers?

A: Yes, to the best of our abilities

Notes:

The taskforce has decided to hold another meeting. The next meeting will be **Tuesday, August 28** at the same time and location.

Adjourned at 4:39pm.